



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 22, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Yates Drilling Company
105 S. 4th Street
Artesia, New Mexico 88210

Attention: Cy Cowan
Regulatory Agent

Administrative Order NSL-5274-A

Dear Mr. Cowan:

Reference is made to the following: (i) your initial application (*administrative application reference No. pTDS0-603339149*) that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico by telefax on January 24, 2006; (ii) your follow-up hard copy that the Division received on January 26, 2006; (iii) your telefaxed message on June 28, 2006 checking on the status of this application; and (iv) the Division's records in Artesia and Santa Fe, including the file on Division Administrative Order NSL-5274: all concerning Yates Drilling Company's ("YDC") request for an exception to Division Rule 104.B (1) for its existing Parrot Federal Well No. 2 (*API No. 30-015-33345*), located at an unorthodox oil well location 1600 feet from the South line and 660 feet from the East line (Unit I) of Section 29, Township 19 South, Range 27 East, NMPM, Eddy County County, New Mexico, to be applicable to the Seven Rivers, Queen, San Andres, Bone Spring, and Wolfcamp formations.

The NE/4 SE/4 of Section 29, which pursuant to Division Rule 104.B (1) is a standard 40-acre oil spacing and proration unit for: (i) the Undesignated McMillan-Seven Rivers Queen Pool (*45030*) (ii) wildcat San Andres oil production; (iii) wildcat Bone Spring oil production; and (iv) the Lake McMillan-Wolfcamp Pool (*97400*), is to be dedicated to this well.

Your application for YDC has been duly filed under the provisions of Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding, after reviewing your application and the records, that this well was permitted by YDC to a proposed depth of 10,725 feet as a wildcat Chester gas test within a standard 320-acre stand-up gas spacing unit comprising the E/2 of Section 29. Pursuant to Division Rule 104.C (2) (a), this location is considered to be "standard" for a deep gas well within this unit. YDC spud this well on May 29, 2005; and on July 12, 2004 a total depth of 10,677 feet was reached and production casing was set. YDC subsequently completed this well in the Wolfcamp formation through perforations from 8,074 feet to 8,158 feet as an oil well (with first production reported in October, 2004); however, pursuant to Division Rule 104.B (1) this location is considered to be "unorthodox."

It is further understood that the W/2 NE/4, SE/4 NE/4, SE/4 SW/4, and SE/4 of Section 29 is a single Federal lease (*United States Government lease No. LC-045545-B*) with common mineral interests in which YDC is the leasehold operator.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox oil well location of YDC's Parrot Federal Com. Well No. 2 is hereby approved for the Undesignated McMillan-Seven Rivers Queen Pool, both the San Andres and Bone Spring formations, and the Lake McMillan-Wolfcamp Pool.

Please note that in the future, YDC, as a prudent operator, should take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations. Any future disregard to the Division's well spacing rules with respect to secondary or primary intervals may subject all such future requests for unorthodox well locations to the Division's hearing process.

IT IS FURTHER ORDERED AT THIS TIME THAT, Division Administrative Order NSL-5274, dated September 8, 2005, is hereby **rescinded**. Division records indicate that the federal *Application for Permit to Drill or Reenter* ("APD") has recently **expired** for YDC's proposed Parakeet "29" Federal Well No. 1 (*API No. 30-015-34320*), which well was the subject of Division Administrative Order NSL-5274 and was to have been drilled at an unorthodox oil well location within this same 40-acre oil spacing and proration unit (NE/4 SE/4 of Section 29) 1475 feet from the South line and 710 feet from the East line (Unit I) of Section 29, to an approximate depth of 1,800 feet, for any and all formations and/or pools from the surface to the base of the San Andres formation developed on 40-acre spacing and governed under the provisions of Division Rule 104.B (1).

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
File: NSL-5274 (*Division administrative application reference No. pSEM0-523744344*)